EXHIBIT 81

Categories of control-related policies and procedures. Many different variants of control-related policies and procedures can be found in practice. Virtually all of them can be classified into one of the following categories:

- Procedures to ensure that transactions are properly authorized;
- Properly designed records;
- Controls to secure assets and accounting records;
- Segregation of incompatible duties;
- Periodic reconciliations;
- Periodic verifications; and
- Analytical review of accounting data for reasonableness.

Procedures to ensure that transactions are properly authorized. Only designated individuals should be in a position to authorize transactions or to commit resources (issue purchase orders, make salary adjustments, authorize payments to vendors, approve overtime). Moreover, authorization, to be meaningful, must occur *in advance*. For example, the subsequent approval of a timesheet containing overtime would *not* be equivalent to authorization of the overtime, which should have occurred beforehand.

Properly designed records. Records should be designed in accordance with the following principles:

- Standardized paper forms (purchase orders, invoices, receiving reports, vouchers) should be *sequentially prenumbered* so that individual documents can always be accounted for; in an electronic system, a unique identifier should be assigned to each transaction to allow for easy tracing;
- The accounting system should provide *automatic duplicates* (paper systems) or retain an image (electronic systems) of documents provided to outside parties (for example, receipts);
- The information system should systematically collect the data needed for *both* managerial purposes (for example, cost accounting) and financial reporting; and
- Electronic forms and processing should contain edit features to automatically notify the user that a 576
  field was left blank or filled out incorrectly.

Controls to secure assets and accounting records. Access to assets and accounting records should be on a strictly "as needed" basis. That is, individual employees should have *all* the access and *only* the access needed to perform their assigned tasks. Accounting systems should not allow records to be changed, adjusted, or reversed without a clear record of both the original entry and the later change.

Written policies and procedures should be in place to minimize the disruption that could result from a technology failure following a disaster *(disaster recovery)*. At a minimum, the Government Finance Officers Association (GFOA) recommends that these policies and procedures:

- Assign disaster recovery coordinators for each agency or department to form a disaster recovery team:
  - ▫ Define the responsibilities of team members;
  - ▫ Maintain a current list of team members and their contact information;
  - ▫ Establish procedures for assembling the team in the event of a disaster;
- Require the creation and preservation of back-up data:
  - ▫ Provide for the regular and timely back-up of electronic data;
  - ▫ Provide for the transportation and storage of back-up data off site;
  - ▫ Ensure the security of back-up data both during transport off site and during storage off site;
- Make provisions for the alternative processing of data following a disaster;
- Provide detailed instructions for restoring electronic files; and
- Establish guidelines for the immediate aftermath of a disaster.

A copy of these policies and procedures should be kept off site. Moreover, an entity should annually test its disaster recovery plan, and that test should involve the actual restoration and processing of data.

Often governments outsource services. If so, they should satisfy themselves concerning the adequacy of the provider's disaster recovery plan.[6] They also should obtain assurance regarding the provider's data security capabilities.

Segregation of incompatible duties. The basic notion behind the segregation of incompatible duties is that no individual should be in the position to both commit and conceal an error or irregularity. That is, there should always be someone else to act as a check or balance. For example, fictitious "purchases" can be avoided by having someone other than the person who placed the order take receipt of the delivery.

Ideally, no single individual should be involved in more than one of the following functions for a given transaction:

- Authorization;
- Recordkeeping; and
- Custody of assets.

As already noted, for example, if one individual places an order (authorization), another individual should take receipt (custody of assets), and yet another record the transaction (recordkeeping), after confirming proper authorization (approved purchase order) and receipt (invoice and receiving report).

In larger organizations, incompatible duties often are assigned to different departments. In small 577
organizations, incompatible duties may be assigned to different individuals within the same department.

Once again, the cost of controls can never be allowed to exceed their benefits. Accordingly, very small entities sometimes have no choice but to find an alternative to the segregation of incompatible duties. One option is to periodically rotate duties within the organization. Another option is to use an outside service to perform certain functions (bank reconciliations prepared by an accounting firm). Still another approach is to use analytical review (discussed later) to identify potential problems.

Periodic reconciliations. Control accounts in the general ledger *(accounts payable* and *accounts receivable)* are supported by subsidiary accounts (individual invoices). The amounts in both should be reconciled periodically. Control accounts also should be reconciled to independent outside records (reconciling the cash account to the bank statement).

Periodic verifications. Most assets and liabilities have an existence apart from the accounting records. It is important that the two be compared periodically (physical inventory of capital assets).

Analytical review of accounting data for reasonableness. It is easy to get lost in the details and miss the "big picture." Accordingly, there is no real substitute for stepping back periodically to evaluate the reasonableness of financial data. There are two facets to such *analytical review:*

- *Comparing financial data with other financial data*. The reasonableness of financial data often is best assessed by making comparisons with other financial data: